ES

ESKER RESOURCES LTD.

ANNUAL REPORT 99

CORPORATE PROFILE & MISSION STATEMENT

Esker Resources Ltd. is a Calgary based, Canadian junior oil and gas resource company, incorporated in 1981 as a private company. The corporation became public in August 1993, after completing an Exchange Offering Prospectus, through The Alberta Stock Exchange. Esker Resources Ltd. trades on the Canadian Venture Exchange under the trading symbol "ESR".

The officers and directors of Esker own a significant portion of the company, further supporting an added commitment to the successful efforts of the company and to the welfare of all shareholders. The company intends to grow through the drill bit. Through investment of cash flow and funds raised with timely equity issues, Esker is expected to continue to improve its financial position as a result of successful drilling and strategic production purchases. Our strength is exploration people and as a result drilling will be our main focus.

Esker explores for and develops oil and natural gas in specific geographical areas of Alberta, where management has the most geological expertise and knowledge, thereby reducing risk through experience. The company targets lower to medium risk prospects where immediate cash flow can be realized. In-house generated prospects are operated by the company.

HIGHLIGHTS	1999	1998	Change
Average Production Rate (calendar day)			
Natural gas (Mcf/d)	1,800	1,784	+1%
Oil and liquids (Bbls/d)	55	65	-15%
BOE per day	235	244	-4%
Total Sales			
Natural gas (MMcf)	632.0	665.7	-5%
Oil and liquids (Bbls)	21,471	23,620	-9%
BOE	84,671	90,190	-6%
Proven Reserves			
Natural gas (MMcf)	6,083	6,682	-9%
Oil and liquids (MBbls)	116	159	-27%
BOE (MBbls)	724	828	-13%
Lands			
Gross working interest acres	56,328	57,503	-2%
Net working interest acres	19,660	20,618	-5%
Gross GORR acres	15,874	21,650	-27%
Average working interest	35%	36%	-1%
Financial			
Oil and gas sales	$ 2,152,302	$ 1,629,024	+32%
Income before income taxes	$ 414,531	$ 328,596	+13%
Net income	$ 268,311	$ 328,596	-18%
Funds from operations	$ 1,197,556	$ 893,150	+34%
Net income per share	$ 0.02	$ 0.02	N.C.
Funds from operations per share	$ 0.07	$ 0.06	+17%
Exploration & development expenditures	$ 2,231,613	$ 2,940,339	-24%
Issue of common shares	$ 16,000	$ 1,712,165	
Bank loan	$ 1,625,000	$ NIL	
Retained earnings	$ 282,852	$ 14,541	
Share Capitalization			
Common shares outstanding, Dec. 31	16,845,101	17,262,601	-2%
Share options	1,390,000	1,328,000	+5%
Warrants	770,000	770,000	N.C.

ANNUAL SHAREHOLDERS MEETING

The Annual General Meeting of Shareholders of Esker Resources Ltd. will be held Thursday, June 15, 2000 at 3:00 p.m. (Calgary time), at The 400 Club, 710 - 4th Ave. S.W., Calgary, Alberta.

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PRESIDENT'S MESSAGE TO SHAREHOLDERS

1999 was a year of frustration for many oil company executives and management teams, as oil and natural gas prices escalated throughout the year and trading prices of public companies fell. Strong oil and gas prices resulted in increased cash flow and greater borrowing power. The lack of investor interest throughout the "oil patch" meant very few investor dollars were available for public share offerings. Esker was affected by this enigma and as a result did not raise any new equity with a share issue during 1999. In order to maintain our planned expenditures we made use of our new lines of credit (totaling $4,500,000) from the National Bank of Canada and increased our debt during 1999. Esker's debt is in the form of a line of credit only and there is no set repayment schedule at this time.

The majority of Esker's drilling was directed toward oil with development drilling occurring on the Manyberries and Auburndale properties. The Manyberries property has been extensively drilled with three new oil wells during 1999. Future drilling would maintain production rates but not increase reserves significantly. As a result, Esker decided to sell its interest in this property effective January 1, 2000. At Auburndale, six new oil wells, two horizontal and four vertical, have been drilled since the new pool discovery was made in June 1999. Esker's oil reserves and oil production rate have increased to new levels at Auburndale and drilling will continue on this property during 2000.

A new gas producing property was developed during 1999 at Paddle River, Alberta. Esker participated (24% W.I.) in a re-entry and re-completion of an abandoned gas well on a farm-in basis. The successful gas well went on production in March 1999 and produces gas and condensate to Esker's account (net 26 Boe/d). More drilling during the year 2000 is expected on this highly potential acreage block. Not all of the drilling news during 1999 was good however. Disappointing drilling results were experienced at our Bindloss gas play, our Fenn Big Valley oil play and development drilling attempts at Cherry were unsuccessful. With each new hole drilled into the subsurface however, new geological information was gathered and the prospects are being re-worked for further hydrocarbon potential and future drilling if merited.

Esker had to maintain production levels to keep up with the expected high depletion rate of our new 1998 properties at Wild River and Cherry where we had to replace approximately 75 BOE/d of production decline due to depleting reservoir pressure at Wild River and increased water production at Cherry. We did successfully replace this production loss with new oil and gas at Auburndale and Paddle River and added salt water disposal capability at Cherry to increase production but did not add much new additional production until the very end of the year. Our overall average production rate was close to the same as 1998 at 235 BOE/d however our year-end exit rate of approximately 260 BOE/d was ahead of the 1998 year end average of 244 BOE/d.

Esker did have another good year financially showing a profit and increased cash flow over that of our prior record year in 1998. Esker also has bought back on the open market a total to date of 532,500 common shares for cancellation and return to treasury. These shares have been purchased at a substantial discount to the net asset value of the company. The year 2000 is expected to be a very active year for the oil business as pricing continues at very high levels and is expected to continue for the year. Management teams throughout the industry are trying to find ways to increase shareholder value and trading price to satisfy shareholder concerns over low trading value. Esker is not immune to these outside forces and will focus on increasing shareholder value during 2000.

The company will continue an aggressive exploration and development drilling program in the Auburndale, Murray Lake, Bindloss, Cherry, and Viking East areas during the second quarter of 2000, while maintaining bank debt at prudent levels. Initial drilling success on these properties will tend to further increase upside as these properties all have good development potential. Esker will continue to look at corporate opportunities, business combinations and property acquisitions, along with a drilling program that incorporates a blend of oil and gas prospects to increase production, reserves and cash flow. As always, the management of Esker will continue to strive to create growth and shareholder value.

On Behalf of the Board of Directors,

Ian G. Holmes
President and Chief Executive Officer
Calgary, Alberta
April 13, 2000

MANAGEMENT DISCUSSION AND ANALYSIS

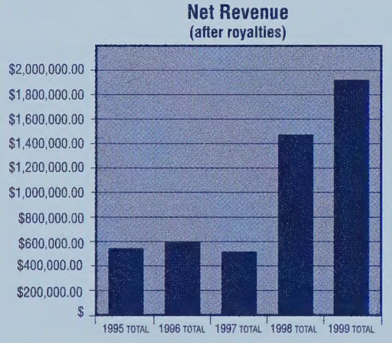
The following discussion and analysis should be read in conjunction with the audited financial statements of the Company for the year ended December 31, 1999.

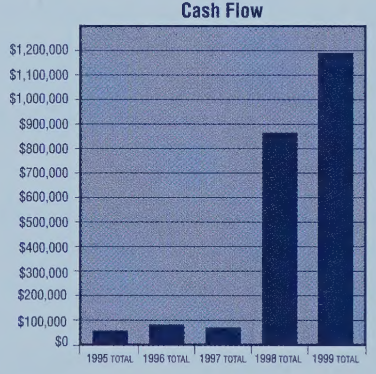
1999 RESULTS OF OPERATIONS

Record cash flow and earnings were achieved in 1999 due primarily to the improved commodity prices throughout most of the year. The 1999 cash flow of $1,197,556 was 34% higher than the $893,150 achieved in 1998 while net earnings were $268,311 in 1999 compared with $328,596 in 1998. On a per share basis, cash flow was $0.07 compared to $0.06 and net earnings was $0.02 for both years.

REVENUE INFORMATION

	1999		1998	
	($000s)	($/BOE)	($000s)	($/BOE)
Oil and gas sales	2,152	25.42	1,629	18.13
Royalties, net of Alberta royalty tax credit	(201)	(2.38)	(128)	(1.42)
Operating costs	(443)	(5.23)	(368)	(4.10)
Field netback	1,508	17.81	1,133	12.61
General and administrative costs	(254)	(3.00)	(242)	(2.69)
Operating netback	1,254	14.81	891	9.92
Interest, net of other income	(56)	(0.67)	2	0.02
Cash flow from operations	1,198	14.14	893	9.94





The following table summarizes the product prices Esker received during the 1999 and 1998 years:

Prices of Products	1999	1998	Change
Average Gas Price / Mcf.	$2.53	$1.93	+31%
Average Oil Price / Bbl.	$23.69	$14.16	+67%
Average Liquids Price / Bbl.	$15.24	$15.23	–

PRODUCTION, SALES AND ROYALTIES

Total sales of oil and gas for the year ended December 31, 1999 amounted to 84,671 BOE's, compared with 90,190 BOE's in 1998. The decrease of 6% resulted from normal declines on all properties and reductions at the Cherry property, which were not altered until the third quarter when the salt water disposal facilities were completed.

The total royalty expense in 1999 amounted to $282,708 and was reduced by $81,413 in Alberta Royalty Tax Credits compared to royalty of $159,071 and Alberta Royalty Tax Credit of $31,555 in the prior year.

Operating expenses increased by 28% to $5.23 BOE compared with $4.10 BOE in the prior year. The increase is attributable to a general rise in all costs and higher costs associated with oil properties.

GENERAL AND ADMINISTRATIVE EXPENSES

General and and administrative expenses in 1999 remained flat with 1998 levels at $254,304. An additional $262,124 of general and administrative expenses related to exploration and development activities was capitalized.

INTEREST EXPENSE

In 1999 the Company utilized the bank line of credit and incurred interest costs of $58,885 compared with $6,695 in the previous year.

DEPLETION, DEPRECIATION AND SITE RESTORATION

Depletion, depreciation and site restoration increased by 39% to $783,025 from $564,554 in 1998 due to lower production combined with the decrease in the engineering estimate of total proven reserves. On a per unit basis, depletion and site restoration costs were $9.15 compared with $6.56 in the prior year.

INCOME TAX

Esker's income tax balances available to reduce future income taxes are approximately $3,600,000. It is expected that these pools will maintain the Company in a non-taxable position for the near future.

LIQUIDITY AND CAPITAL RESOURCES

Esker is capitalized with common shareholders' equity and utilizes bank borrowings when necessary to meet the objectives of its capital expenditure program. During 1999 the company issued 64,000 common shares for proceeds of $16,000 and repurchased 481,500 common shares under a normal course issuer bid for $130,122. At year-end the total outstanding shares were 16,845,101.

At December 31, 1999 the Company's authorized revolving bank line of credit was $3 million and its acquisition line was $1.5 million. The amount drawn on these lines at year end amounted to $1,625,000.

NET ASSET VALUE

The following table summarizes the net asset value of Esker Resources Ltd. utilizing constant pricing for oil and gas reserves. The basic net asset value per share decreased marginally to $0.54 per basic common share.

Net Asset Value	**1999**	**1998**	**1997**
Discount Factor	10%	10%	10%
Proven Reserves (Constant Pricing)	$ 8,377,000	$ 8,089,000	$ 3,798,000
Probable Reserves risked @ 50%	$ 475,500	$ 351,500	$ 999,850
Undeveloped Property	$ 997,360	$ 1,060,560	$ 623,760
Seismic	$ 510,000	$ 461,900	$ 114,066
Net Working Capital	$ 302,549	$ (290,150)	$ (60,384)
Long Term Debt	$ (1,625,000)	$ 0	$ (287,078)
Net Asset Value - Basic	**$ 9,037,409**	**$ 9,672,810**	**$ 5,188,214**
Proceeds on Conversion of Outstanding Warrants and Vested Stock Options	$ 926,575	$ 890,874	$ 191,250
Net Asset Value - Fully Diluted	**$ 9,963,984**	**$10,563,684**	**$ 5,379,464**
Basic - Common Shares	16,845,101	17,262,601	14,606,501
Fully Diluted - Common Shares	19,005,101	19,360,601	15,709,501
Net Asset Value Per Share - Basic	**$ 0.54**	**$ 0.56**	**$ 0.36**
Net Asset Value Per Share - Fully Diluted	**$ 0.52**	**$ 0.55**	**$ 0.34**

EXPLORATION AND DEVELOPMENT DRILLING & COMPLETION RESULTS

During the 1999 fiscal year Esker drilled or participated in a total of 13 wells, two more than in 1998. A total of 9 successful wells (7 oil wells, 1 gas well and 1 service well) were drilled resulting in an over all success rate of 62%. Esker's average working interest was 34%, an increase of 4 percentage points over that of 1998. The following table outlines the 1999 drilling activity:

1998 - Working Interest Wells	Development	Exploratory	Total
Oil	6	1	7
Gas	0	1	1
Dry & Abandoned	1	3	4
Service	1	0	1
TOTAL	8	5	13

Esker operated a total of 5 wells during 1999, which is the same as last year. Operated wells were in the Bindloss, Cherry and Fenn Big Valley areas of Alberta. Other drilling in which Esker partnered with the operator were in the Manyberries, Paddle River and Auburndale areas of Alberta.

Esker intends to be even more active during 2000. As of the date of this report Esker has already operated the drilling of two wells and participated in 5 others, resulting in four new oil wells and one overriding royalty gas well to date.

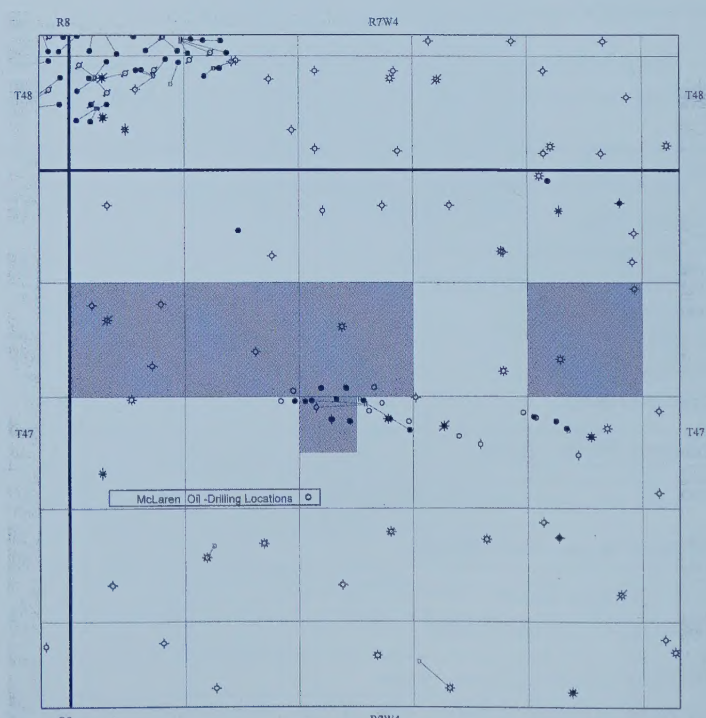
A total of two additional wells were re-completed in 1999 to increase production and one shut-in gas well was tied into production with a new pipeline. These wells were in the Auburndale, Wainwright and Ankerton areas of Alberta.

PROPERTIES

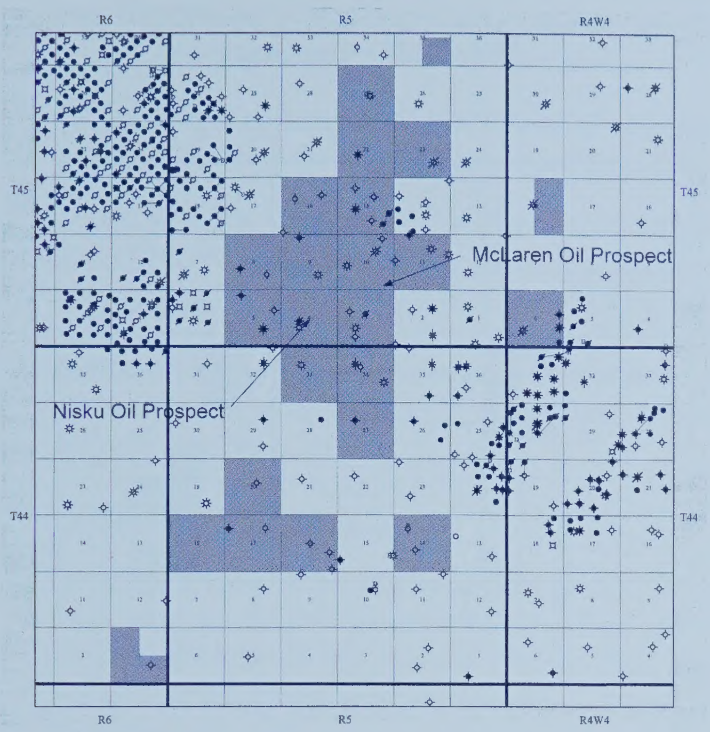
AUBURNDALE, EAST CENTRAL ALBERTA

During 1999, Esker entered into a pooling agreement with Search Energy Corp. for the purpose of drilling for oil in the McLaren sandstone. The subsequent drilling program has been 100% successful, as of March 31, 2000, with the drilling of 2 horizontal and 4 vertical wells, all of which are oil producers. Esker's share of production as of the first week of March 2000 averaged 35 BOPD to it's 12.5% working interest. It is anticipated that as many as 4 locations will be drilled in the coming months on lands which Esker holds a 25% working interest. Potential for oil and gas production from the Sparky Formation exists over a portion of Esker's operated land holdings (Esker 52.5% W.I.), with drilling planned for later this year.

AUBURNDALE - Esker Lands



WAINWRIGHT - Esker Lands



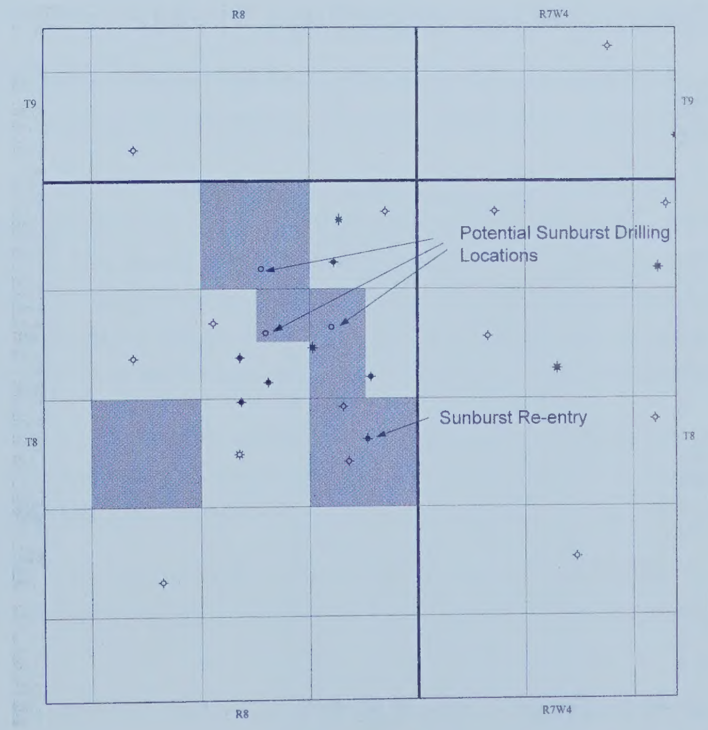
WAINWRIGHT, EAST CENTRAL ALBERTA

Included in Esker's prospect inventory are 2 heavy oil prospects, which lie within the extensive Wainwright land holdings. One of those involves the Nisku Formation and is situated on a 100% Esker lease. The second prospect is on 42% working interest lands and comprises a new McLaren sand oil pool resulting from the drilling of the 11-3 discovery well in 1998, which encountered oil over water and was suspended after experiencing production problems. Both of these opportunities are geologically mapped and partially controlled by current seismic coverage. It is anticipated that drilling will take place on both prospects in 2000 pending the acquisition of additional seismic data.

MURRAY LAKE, SOUTH EAST ALBERTA

Esker is preparing for upcoming activity on its 100% lands in the Murray Lake area of southeastern Alberta where the Company has acquired a $3^3/_4$ section land spread on a Sunburst oil prospect. Earlier activity by other operators in the late 1970's resulting in various wells being completed and put on production for Sunburst oil, but were subsequently abandoned due to generally low productivity and prevailing low oil prices. It is Esker's intent to re-enter one or more well bores currently on Company lands for oil production. Based on the success, an aggressive drilling program comprising infill and step outs to existing well bores will be undertaken with map indicated potential for 12 or more drilling locations. Waterflood potential will be looked at during the development phase to significantly increase the ultimate oil recovery.

MURRAY LAKE - Esker Lands

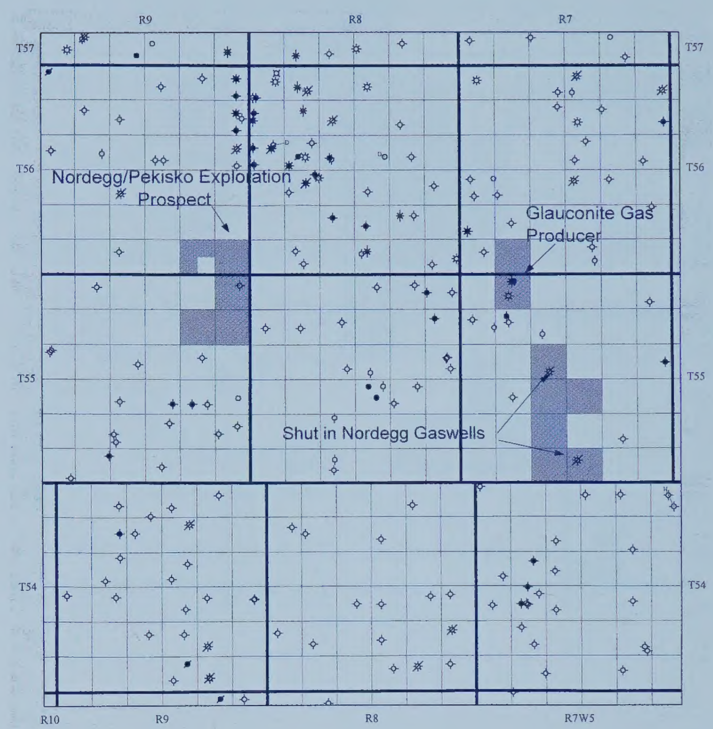


PROPERTIES (continued)

PADDLE RIVER, CENTRAL ALBERTA

The Esker land holdings constitute 3 distinct prospects, including a producing Glauconite gas well drilled in 1999, in which Esker has a 24% working interest. Production commenced in March, 1999, and is currently producing at over one million cubic feet per day plus liquids. The Company furthermore retains a 100% working interest in a 3,040 acre (4¾ section) land block which is prospective for natural gas and oil in the Nordegg and Pekisko Formations and is supported by seismic data acquired in 1999. A third land block comprising 3,840 acres (6 sections) of varying Company interests contains 2 shut-in Nordegg gas wells. It is apparent that several development locations exist on the block and it is anticipated that drilling of additional wells, together with the tie-in of the existing gas wells will occur within the next 12 months.

PADDLE RIVER - Esker Lands



DIVESTITURES AND ACQUISITIONS

1999 was a very active year for Esker for both acquisitions and divestitures. A total of three properties were purchased in addition to the mineral rights, which were purchased at the public Alberta land sales (see LAND SUMMARY) during the year.

At the beginning of the year Esker made a very good purchase of a total of 4 3/4 sections of gas / oil potential lands in the Paddle River area of Alberta. These exploratory lands in which Esker has a 100% working interest are being made available to industry for a farm-in opportunity. Another smaller interest of 6 sections of land was purchased in this same package. These development lands have two shut-in potential gas wells (Esker 23% & ORR) ready to be tied into production facilities when enough gas reserves are discovered to warrant a pipeline to the nearest tie-in point (6 miles). The total investment by Esker for this property was $75,000. Esker has drilling plans for this block of acreage in 2000.

At the Cherry operated property in Southern Alberta, Esker purchased (effective May 1, 2000) the interests of one of our partners in the existing oil wells, production facilities and salt water disposal pipeline and associated equipment. Also purchased were the mineral rights to lands offsetting our oil wells. This investment totaled $285,300.

Another partner's interests were purchased (effective March 1, 1999) in the Fenn Big Valley area of central Alberta. A 35% working interest in the lands and suspended well bore on this play were purchased.

Esker was also actively selling some of its lower interest, high administration properties to other industry partners. At Fenn Big Valley, Esker sold its small interest in the Viking gas unit effective March 1, 1999 for a total of $14,500. At Caroline, Alberta a very small ORR interest was sold to an industry partner.

After year-end, Esker sold its Manyberries property to an existing partner for $215,000. The sale was effective January 1, 2000 and as a result is not included in the reserves report for January 1, 2000.

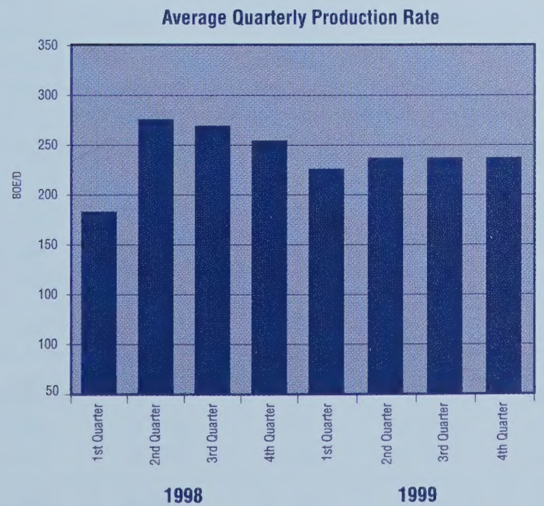
One of the long-term goals of the management of Esker Resources Ltd. has been to lower the overall well count and increase the working interest in producing properties since it's first oil and gas acquisition in 1993. In that year Esker had a working interest in over 225 wells with only 30 Boe/d production and each year the total well count has decreased while production was increasing. As of March 23, 2000 Esker now has a well count of 87 wells and approximately 260 boe/d. This dramatic decrease in well count has been a result of the divestiture efforts of the management of Esker. Many small interests have been sold off while the participation in well drilling and land purchases has been increased. Our average drilling working interest has increased from 23% in 1993 to 34% in 1999.

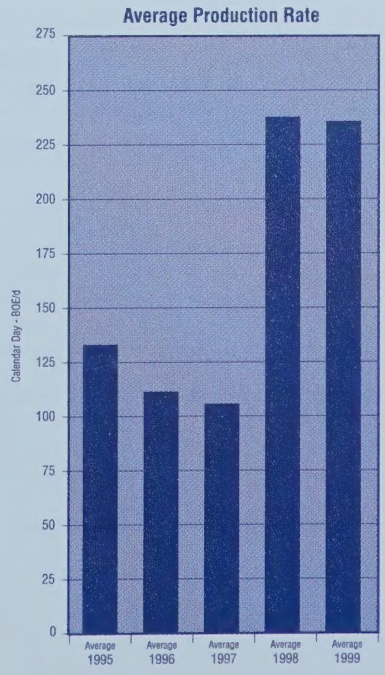
PRODUCTION SUMMARY

Because of Esker's record production improvement year of 1998, the new production in its early years of life, experiences a higher rate of depletion than later years. As a result of the early high rate of depletion Esker had to replace the large depletion factor throughout the year. The properties of Wild River and Cherry experienced the most depletion (approximately 75 Boe/d) over the 1999-year. Wild River depleted quickly because of the fact that it is a fractured reservoir and Cherry oil rate depleted due to water influx. The production at Wild River has now stabilized and the year 2000 will see very little depletion. The Cherry property is now producing more than in the first part of 1999 because water disposal facilities were installed in the summer and production has been increased.

Esker's average calendar day production rate in 1998 was 244 Boe/d while the comparable rate during 1999 was 235 Boe/d. The exit rate (December 31, 1999) has been calculated at 260 Boe/d however, new wells drilled in December 1999 at Auburndale added approximately 22 Bopd to the December average rate of 238 Boe/d.

The two graphs indicate Esker's production rate on a yearly calendar day basis as well as on the basis of quarterly rates.





RESERVES SUMMARY

The following table summarizes Esker Resources Ltd.'s hydrocarbon reserves for each of the last three years. The estimates of reserves and discounted cash values before taxes were derived by Sproule Associates Limited for 1999 & 2000 and by Cum Ben Engineering & Development Ltd. for 1998. These engineering firms carried out an independent examination of Esker's reserves for each of those years presented.

The table outlines a yearly comparison of the companies gross reserves (before royalties) using an escalated pricing forecast and unrisked probables. The year 2000 discounted cash value is derived with a March 1, 2000 pricing forecast.

	Reserve Category	Gas (MMcf)	Crude Oil and NGL (Bbls)	BOE (MBbls)	Annual Change	10% DCV M$
January 1, 1998	Proven	4,564	330,000	786.4		
	Probable	1,032	1,690,000	1,793.0		
	TOTAL	5,596	2,020,000	2,579.4	+208%	14,744
January 1, 1999	Proven	6,682	159,400	827.6		
	Probable	358	218,300	254.1		
	TOTAL	7,040	377,700	1,081.7	-58%	9,682
January 1, 2000	Proven	6,083	116,200	724.5		
	Probable	1,067	1,800	108.5		
	TOTAL	7,149	117,900	833.0	-23%	8,965

RECONCILIATION OF RESERVES SUMMARY

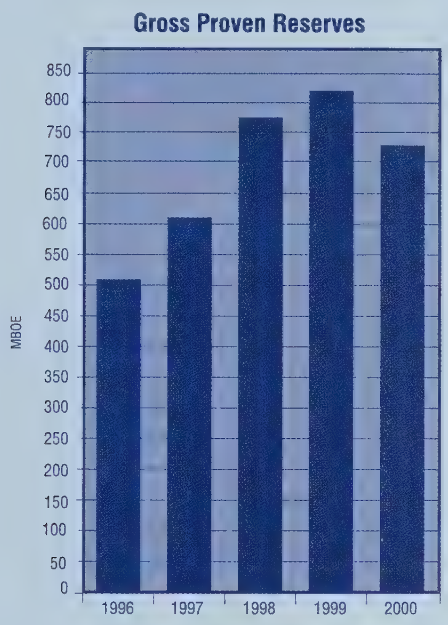
The following table summarizes Esker's reserves and indicates the categories where the changes from last year occurred. The revisions to prior year estimates also include the reduction for property sales at Fenn Big Valley and Manyberries (see DIVESTITURES AND ACQUISITIONS).

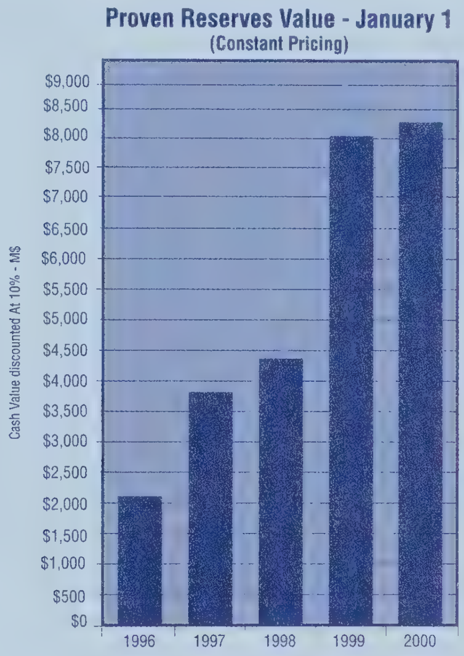
	Oil & NGL MBbls			Gas (MMcf)			Barrels Of Oil Equivalent (MBOE)
	Proven	Probable	Total	Proven	Probable	Total	Total
January 1, 1998	**330.2**	**1,689.8**	**2,020.0**	**4,564.2**	**1,032.3**	**5,596.5**	**2,579.7**
New Additions during 1998	59.6	183.4	243.0	1,771.9	357.6	2,129.5	455.9
Production during 1998	(23.7)	0.0	(23.7)	(651.2)	0.0	(651.2)	(88.8)
Revisions to prior estimates	(206.7)	(1,654.9)	(1,861.6)	997.0	(1,032.5)	(35.5)	(1,865.2)
January 1, 1999	**159.4**	**218.3**	**377.7**	**6,681.9**	**357.5**	**7,039.5**	**1,081.7**
New Additions during 1999	60.9	0.0	60.9	204.7	0.0	204.7	81.4
Production during 1999	(20.1)	0.0	(20.1)	(657.0)	0.0	(657.0)	(85.8)
Revisions to prior estimates	(84.0)	(216.5)	(300.6)	(146.6)	709.5	561.8	(244.3)
January 1, 2000	**116.2**	**1.8**	**117.9**	**6,083.0**	**1,067.0**	**7,149.0**	**833.0**

- (Numbers in both tables may differ slightly due to rounding)

Esker's proven and probable reserves declined from that of 1999. The oil and liquids reserves dropped primarily due to a loss of reserves at Cherry caused by water encroachment and negative drilling results. New oil reserves were added at our Auburndale property. Overall gas reserves increased due to the addition of Paddle River and re-evaluation of the Elkwater property. The gas reserves at the Wild River property declined due to a steeper production decline than predicted. Esker's proven reserves base is 84% natural gas and 16% oil and liquids.

The overall value of the proven and probable reserves has increased due to the impact of higher pricing experienced at year end. The proven reserves value graph is derived from a constant pricing forecast.





LAND SUMMARY

Esker participated in numerous Alberta land sales during the 1999 year. One successful purchase was at our Bindloss property where a total of $27,252 was invested in new lands. Several land purchases were made (see DIVESTITURES AND ACQUISITIONS) from industry partners and several sales were made as well.

The following table outlines Esker's working interest and overriding royalty acreage positions as of December 31, 1999:

	Total Area	Developed	Undeveloped
Working Interest Lands			
Gross	56,328 acres	29,623 acres	26,705 acres
Net	19,660 acres	7,193 acres	12,467 acres
GORR Lands (Gross)	15,874 acres	6,321 acres	9,553 acres

SHARE CAPITALIZATION

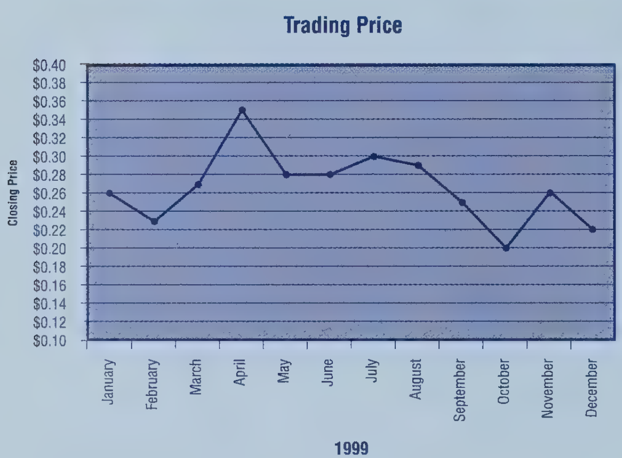
During the year Esker issued 64,000 common shares through the exercise of stock options and repurchased 481,500 common shares under a normal course issuer bid. At year end total outstanding common shares were 16,845,101.

Stock options on 314,000 shares expired and new options to purchase 440,000 common were issued in 1999.

Fully diluted outstanding common shares amounted to 19,005,101 at year end.

TRADING HISTORY

January through December	1999	1998	change
High	$0.39	$0.75	-48%
Low	$0.14	$0.27	-48%
Close	$0.22	$0.34	-35%
Volume	1,739,100	3,073,920	-43%



BUSINESS RISKS

The oil and gas industry is a high-risk business, as there are no guarantees of finding new reserves or of finding market outlets for existing shut-in reserves. This annual report reflects actual 1999 results and contains forward-looking statements that are subject to risk factors associated with the oil and gas business. The company believes that the expectations reflected in this report are reasonable, however results could be affected by variables including, but not limited to, price fluctuations, industry competition, environmental risks, political risks and capital restrictions. Esker Resources Ltd. reduces risk by exploring for and developing oil and natural gas assets in areas where the technical staff has a high degree of experience and understanding of the risks involved in each geological play. Esker also maintains insurance coverage, in accordance with prudent industry standards, to reduce the risks associated with oil and gas field operations.

YEAR 2000 (Y2K) COMPLIANCE ISSUE

The Y2K bug, as the potential new millennium computer problem was referred to as, was not an issue or factor affecting Esker in any way. The year-end December 31 and start of the new-year January 1 came and left with no problems on any of Esker's operated or non-operated properties. Our pre-year end Y2K planning program fixed any potential problems well in advance of the year-end. Esker's total expenditure to prepare for the Y2K bug was less than $5,000.

EXPLORATION / PRODUCTION TEAM

Exploration / Production Team - officers, employees and consultants.

Geology
Howard Swennumson
Ian Holmes

Geophysics
consultants

Land
Dennis Harder

Land Administration
Ellen Dewar
Karen Alderson

Engineering and Operations
Barry Holizki
Howard Swennumson

Accounting
Tom Briggs
Joanne Schwass
Bob Gaskell

Administration / Investor Relations
Ian Holmes
Karen Alderson

ABBREVIATIONS USED IN REPORT

M$	-	Thousand dollars	BOE/d	-	Barrels of Oil Equivalent per day
Mcf/d	-	Thousand cubic feet per day	AEUB	-	Alberta Energy and Utilities Board
MM	-	Million	DCV	-	Discounted cash value
Mcf	-	Thousand cubic feet	NGL	-	Natural Gas Liquid
MMcf	-	Million cubic feet	ORR	-	Overriding royalty
MMcf/d	-	Million cubic feet per day	GORR	-	Gross Overriding Royalty
MBbls	-	Thousand Barrels	BOE	-	Barrels of Oil Equivalent
MBOE	-	Thousand Barrels of Oil Equivalent			(Convert gas to oil at a ratio of 10 Mcf: 1 Bbl.)
Bbls/d	-	Barrels per day	ha.	-	Hectare
Bbls	-	Barrels	2D	-	two dimensional
BOPD	-	Barrels of oil per day	3D	-	three dimensional
N.C.	-	No change			

ES

FINANCIAL STATEMENTS OF ESKER RESOURCES LTD.

YEARS ENDED

DEC. 31, 1999 AND 1998

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements and all information in the annual report are the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial and operating data appearing throughout the report is presented on a basis consistent with the financial statements.

Management has established procedures and systems of internal control designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced in a timely manner.

The financial statements have been examined by external auditors who were appointed by the Company's shareholders and whose report is set forth below. The Audit Committee of the Board of Directors has reviewed these financial statements with management and the external auditors. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

Ian G. Holmes
President and Chief Executive Officer

Tom H. Briggs
Chief Financial Officer and Secretary

April 13, 2000

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Esker Resources Ltd. as at December 31, 1999 and 1998 and the statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
March 17, 2000

Balance Sheets

December 31, 1999 and 1998

	1999	1998
Assets		
Current assets:		
Cash	$ 56,325	$ 39,642
Accounts receivable	704,610	494,603
	760,935	534,245
Capital assets (note 2)	5,975,135	4,624,999
	$ 6,736,070	$ 5,159,244
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 458,386	$ 824,395
Bank loan (note 4)	1,625,000	–
Deferred income taxes	146,220	–
Provision for site restoration costs	230,389	212,963
Shareholders' equity:		
Capital stock (note 3)	3,993,223	4,107,345
Retained earnings	282,852	14,541
	4,276,075	4,121,886
	$ 6,736,070	$ 5,159,244

See accompanying notes to financial statements.

Approved by the Board of Directors:

Ian G. Holmes
Director

Tom H. Briggs
Director

Statements of Operations and Retained Earnings

Years ended December 31, 1999 and 1998

	1999	1998
Revenue:		
Oil and gas sales	$ 2,152,302	$ 1,629,024
Royalties, net of Alberta Royalty Tax Credit	(201,295)	(127,516)
Interest and other income	2,517	8,929
	1,953,524	1,510,437
Expenses:		
Oil and gas operating	442,779	368,420
General and administrative	254,304	242,172
Interest	58,885	6,695
Depletion and depreciation	783,025	564,554
	1,538,993	1,181,841
Income before income taxes	414,531	328,596
Deferred income taxes (note 5)	146,220	–
Net income	268,311	328,596
Retained earnings (deficit), beginning of year	14,541	(314,055)
Retained earnings, end of year	$ 282,852	$ 14,541
Net income per share	$ 0.02	$ 0.02

See accompanying notes to financial statements.

Statements of Cash Flows

Years ended December 31, 1999 and 1998

	1999	1998
Cash provided by (used in):		
Operating activities:		
Net income for the year	$ 268,311	$ 328,596
Items not involving cash:		
Depletion and depreciation	783,025	564,554
Deferred income taxes	146,220	–
Funds from operations	1,197,556	893,150
Net change in non-cash operating working capital	(576,016)	(145,626)
	621,540	747,524
Financing activities:		
Issue of common shares	16,000	1,712,165
Repurchase of common shares	(130,122)	–
Bank loan	1,625,000	–
	1,510,878	1,712,165
Investing activities:		
Exploration and development expenditures	(2,231,613)	(2,940,339)
Site restoration costs incurred	–	(19,380)
Proceeds on disposal of capital assets	117,544	140,000
Acquisition of capital assets	(1,666)	(15,362)
	(2,115,735)	(2,835,081)
Increase (decrease) in cash	16,683	(375,392)
Cash, beginning of year	39,642	415,034
Cash, end of year	$ 56,325	$ 39,642
Funds from operations per share	$ 0.07	$ 0.06
Fully diluted funds from operations per share	$ 0.07	$ 0.05

See accompanying notes to financial statements.

Notes to Financial Statements

Years ended December 31, 1999 and 1998

1. Significant Accounting Policies:

(a) Petroleum and natural gas operations:

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs associated with the exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical costs, lease rental costs on non-producing properties, costs of drilling both productive and non-productive wells and overhead charges directly related to acquisition, exploration and development activities.

The costs of petroleum and natural gas interests are depleted and depreciated by the unit-of-production method based on the estimated gross proved reserves. Petroleum and natural gas reserves and production are stated in equivalent units based upon estimated units of revenue.

The capitalized costs of petroleum and natural gas interests less accumulated depletion and depreciation are limited to an amount equal to the estimated future net revenue from proved reserves (based on prices and costs at the balance sheet date) plus the cost (net of impairments) of unproved properties less estimated future general and administrative expenses, site restoration costs, financing costs and income taxes.

(b) Other capital assets:

Other capital assets are recorded at cost and are depreciated by the declining balance method at 20%.

(c) Joint ventures:

Substantially all of the exploration, development and production activities of the Company are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

(d) Provision for site restoration costs:

Estimated future site restoration costs are provided using the unit of production method based on estimated gross proved reserves. The annual charge is included in depletion and depreciation and the accumulated provision is reflected as a long-term liability. Site restoration expenditures are charged to the accumulated provision account as incurred.

(e) Income taxes:

The Company follows the tax allocation method of accounting for income taxes. Under this method, deferred income taxes are recorded to the extent that income taxes, otherwise payable, are deferred by claiming capital cost allowances and exploration and development costs in excess of depletion and depreciation recorded in the financial statements.

Notes to Financial Statements, Page 2

Years ended December 31, 1999 and 1998

1. Significant Accounting Policies (continued):

(f) *Stock options:*

The Company has a stock option plan as described in note 3. When stock options are issued the value of the options is not determined or recorded. Any consideration received on the exercise of stock options is credited to share capital.

(g) *Measurement uncertainty:*

The amounts recorded for depletion and depreciation of petroleum and natural gas properties and equipment and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

(h) *Flow-through shares:*

The proceeds from issuance of flow-through shares have been reduced by the estimated tax benefits renounced to shareholders.

(i) *Per share information:*

Per share amounts have been computed using the weighted average number of common shares outstanding during the year (16,906,462 in 1999; 16,262,905 in 1998). Fully diluted per share amounts give effect to the issuance of warrants and shares under option agreements as if they had been issued at the beginning of the year.

2. Capital Assets:

	1999	1998
Petroleum and natural gas interests	$ 8,092,998	$ 5,978,929
Other	75,840	74,174
	8,168,838	6,053,103
Accumulated depletion and depreciation	2,193,703	1,428,104
	$ 5,975,135	$ 4,624,999

During the year $262,124 (1998 - $222,740) of general and administrative expenses related to exploration and development were capitalized.

Costs related to undeveloped interests which are excluded from the depletion base amounted to $207,349 at December 31, 1999 (1998 - $264,465).

3. Capital Stock:

(a) *Authorized:*

Authorized capital stock consists of an unlimited number of common shares without par value and an unlimited number of preferred shares issuable in series.

Notes to Financial Statements, Page 3

Years ended December 31, 1999 and 1998

3. Capital Stock (continued):

(b) *Issued:*

Common shares

	Number of shares	Amount
Balance, December 31, 1997	14,606,501	$ 2,941,960
Flow through shares	1,886,100	1,212,765
Common shares	770,000	499,400
Income tax effect on flow-through shares	–	(546,780)
Balance, December 31, 1998	17,262,601	4,107,345
Exercise of stock options	64,000	16,000
Repurchase of common shares	(481,500)	(130,122)
December 31, 1999	16,845,101	$ 3,993,223

(c) *Stock options:*

Stock options, entitling the holder to purchase common shares from the Company have been granted to directors, officers, consultants, and certain employees of the Company. A summary of the status of the Company's stock option plan as of December 31, 1999 and 1998, and changes during the years then ended, is presented below:

	1999		1998	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding, beginning of year	1,328,000	$ 0.31	1,103,000	$ 0.28
Granted	440,000	$ 0.24	225,000	$ 0.46
Exercised	64,000	$ 0.25	–	–
Expired	314,000	$ 0.25	–	–
Stock options outstanding, end of year	1,390,000	$ 0.31	1,328,000	$ 0.31
Exercisable at end of year	1,110,250	$ 0.31	1,085,500	$ 0.30

The following table summarizes information regarding stock options outstanding at December 31, 1999:

OPTIONS OUTSTANDING				OPTIONS EXERCISABLE	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 0.20 - 0.39	1,165,000	2.7 years	$ 0.28	941,500	$ 0.29
0.40 - 0.60	225,000	3.0 years	0.46	168,750	0.46
$ 0.20 - 0.60	1,390,000	2.8 years	$ 0.31	1,110,250	$ 0.31

(d) *Warrants:*

At December 31, 1999, 770,000 common share purchase warrants to purchase one common share each at $0.75 are outstanding and are exerciseable until June 3, 2000.

Notes to Financial Statements, Page 4

Years ended December 31, 1999 and 1998

4. Bank Loan:

The Company has a $3,000,000 revolving production loan facility and a $1,500,000 non-revolving acquisition loan with a major Canadian chartered bank. At December 31, 1999 the Company had drawn $1,625,000 on the production loan facility. The credit facility has no fixed terms of repayment and is subject to an annual review. At the lender's option, the loan may be converted to a term facility with repayment terms as determined by the bank. Any outstanding debt bears interest at the bank's prime rate plus 3/4%. The Company has provided security for the credit facility under Section 426 of the Bank Act with respect to certain oil and gas interests, an assignment of book debts, a letter of undertaking not to pledge assets of the Company and a $10,000,000 demand debenture secured by a first floating charge over all other assets. The bank has agreed that no principal repayments will be required during 2000 providing the Company continues to satisfy the provisions of the facility.

5. Income Taxes:

Income taxes differ from the results which would be obtained by applying the combined Federal and Provincial income tax rates of 44.6% to the net income before income taxes. The difference results from the following:

	1999	1998
Expected income tax provision	$ 184,880	$ 146,553
Increase (decrease) resulting from:		
Non-deductible crown charges	59,490	17,985
Resource allowance	(146,539)	(69,643)
Provincial royalty credits	(36,310)	(14,570)
Non-deductible depletion	87,864	92,875
Benefit of prior year losses	–	(163,959)
Other	(3,165)	(9,241)
Tax provision	$ 146,220	$ –

At December 31, 1999, the Company has approximately $3,600,000 of income tax deductions available to reduce future taxable income.

Capital assets include costs with a net book value of $1,800,000 expended under flow-through share arrangements and for which the income tax benefits have been renounced to shareholders.

6. Financial Instruments:

(a) Credit risk:

A substantial portion of the Company's accounts receivable are with customers and joint venture partners in the petroleum and natural gas industry and are subject to normal industry credit risks. Purchasers of the Company's natural gas, crude oil and natural gas liquids are subject to an internal credit review to minimize the risk of non-payment.

(b) Fair values:

The fair values of the Company's monetary assets and liabilities approximated their carrying values at December 31, 1999 and 1998.

CORPORATE INFORMATION

DIRECTORS

***David H.Erickson,** P. Geol.*
Vice President Operations
Raven Energy Ltd.
Calgary, Alberta

***Tom H. Briggs,** C.A.*
Chartered Accountant
Calgary, Alberta

***Ian G. Holmes,** P. Geol.*
President and Chief Executive Officer
Esker Resources Ltd.
Calgary, Alberta

***Ronald R. Sirois,** P. Land*
President
Romtrek Petroleums Ltd.
Calgary, Alberta

* Member of Audit Committee

OFFICERS

Ian G. Holmes, P. Geol.
President and Chief Executive Officer

Tom H. Briggs, C.A.
Chief Financial Officer and Secretary

Howard L. Swennumson, P. Geol.
Vice President Exploration

HEAD OFFICE

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Calgary, Alberta T2P 0Z1
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Fax: (403) 294-0287
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Website: www.eskerresources.com

EVALUATION ENGINEERS

Sproule Associates Limited
Calgary, Alberta

AUDITORS

KPMG LLP
Chartered Accountants
Calgary, Alberta

REGISTRAR & TRANSFER AGENT

CIBC Mellon Trust Company
Calgary, Alberta

SOLICITOR

Gregory B. Matthews
Barrister and Solicitor
Calgary, Alberta

EXCHANGE LISTING

Canadian Venture Exchange
Trading Symbol: **ESR**

BANKERS

National Bank of Canada
Calgary, Alberta

ES
ESKER
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